Summer 2019

Mortgage & Protection news

From Kama Financial Solutions Ltd

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Be in CONTROL...

Is it time to start implementing your property (and protection) plans?

Following the Financial Crash of 2007/8, many of us had to tighten our belts and hold back from implementing plans, such as house moves, or undertaking major renovations to our existing home. Yet, over time we had to get on with our lives. Similarly, as Brexit drags on, consumer reluctance to implement planned lifestyle changes may also soften. In which case you may, for example, want to take advantage of the **excellent mortgage deals** on offer.

Where we can help

Whilst strict lending requirements remain in place, we operate in this sector day-in day-out, and have an excellent understanding of what different lenders are looking for.

This will, hopefully, help us to swiftly identify the most suitable route foward for you, whether that's for a **house move, improving your current home,** or buying your **first property.**

Or maybe it's to help purchase a **second home,** or to **expand your portfolio** in your role as a landlord.

Alternatively, you may be coming towards the end of your current 'deal period' and want to **remortgage** onto another one. Or perhaps you simply want to identify a better mortgage deal than the one you have.

Whatever your reasons, it can be a confusing process with so many different mortgage products out there, so it probably comes as no surprise that most seek advice, with 85% of all mortgages going through intermediaries (such as us).

(Source: iress, 2018 Mortgage Efficiency Survey, October 2018)

Interestingly, the increase in competition amongst lenders has meant that a decade on from the financial crisis, average **mortgage rates have almost halved!**

(Source: Moneyfacts, March 2019 release)

Elsewhere, current UK property prices will also be a consideration. Annual growth remains subdued at 0.6% - albeit regional variations would apply.

(Source: Nationwide, year to May 2019)

Furthermore, you must also recognise the importance of protecting you (and your income stream), by taking out suitable **protection insurance cover**. Similar to what's on offer with mortgages, there's a wide, and innovative range of protection options to consider.

Mortgage Prisoners

With regard to this specific audience, there continues to be movement politically, and also via regulators and trade bodies, to get lenders to assist the **150,000** or so who are viewed as mortgage prisoners. These borrowers are **stuck on their Standard Variable Rate,** as they can't meet the strict affordability criteria to get a better deal, or find themselves with lenders who no longer lend.

Those that face this scenario ought to talk to us, as options may be improving. Alternatively, get in touch if any of the earlier issues resonate.

You may have to pay an early repayment charge to your existing lender if you remortgage.

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Lofty Ambitions

As said, many of you may feel that you've waited long enough for some resolution to Brexit - either way - and simply want to proceed with long-planned **Home Improvements.**

For many, improving your home is a balancing act. First, to identify and cost out what works best for you, and your family, and then how that may play out in adding value to any future property sale.

Build up, out or down

Adding extra space to your home tends to be the most financially lucrative - whether that's building upwards, with a loft conversion, adding an extension, installing a basement, or converting the garage.

According to the Royal Institute of Chartered Surveyors (RICS), for example, more than a million homes in the UK now have loft conversions, with the market growing by an estimated 10% each year. Estate agents calculate that **an average loft conversion costs around a third of the price of moving to a property with an extra room.** In fact, turning your attic into usable space could increase the value of your home by as much as 25%, particularly if you are adding an extra bedroom and a bathroom. *(Source: RICS, Guide to Home Extensions)*

Another development that reflects our changing live/work lifestyle, is to add a 'home office', either as part of the property, or perhaps as a garden office.

And some, of course, may want to modernise the kitchen - a focal point for many homes - and take advantage of the increasingly innovative storage and appliance solutions.

Consider the basics

Before you embark on obvious pleasing developments, consider any structural problems, such as a leaking roof, or that the electrical system is sound, and get them sorted first, as it would be a lot more disruptive if that's done after the event.

Another option to consider is that you could simply cover the cost (and time) of securing planning permission, ensuring that it's still in place when you come to sell, as that too may add value to your property.

But remember, no matter how much you spend there is likely to be a ceiling value that's partly framed by local property prices.

Getting the funds

Depending on the amount you require, the two obvious routes are remortgaging to secure a larger loan amount, or seeking an additional loan, such as a second charge on your property. You may opt for the latter if you face a hefty early repayment charge on your existing mortgage deal.

Conversely, if you feel you'd struggle to raise more funds, then assess your current deal. If you're on your lender's Standard Variable Rate, then the savings each month from seeking out a better deal, may go some way towards helping to cover the costs of the smaller jobs around your home.

If you are keen to raise funds to implement your plans, do get in touch.

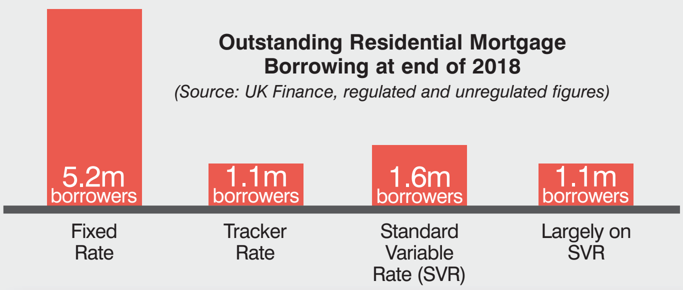
■ Your property may be repossessed if you do not keep up repayments on your mortgage.

FACTS about...
Residential Borrowers

Fixed Rate deals continue to be the most popular form of borrowing, with the 5.2m borrowers accounting for almost 58% of the marketplace in 2018, up from around 52% in 2017. *(Source: UK Finance, 2017 & 2018 data)*

The next largest grouping, are those sitting on far more expensive Standard Variable Rates (SVR). To put that into perspective, the average rate for a 2-year fixed deal is around 2.49%, with the average SVR at about twice that amount at 4.89%. In which case, if you're on an SVR, it's possibly worth having a discussion. *(Source: Moneyfacts, March 2019 analysis)*

In the other chart, you'll see the differences between those that are simply staying put and remortgaging vs. those that are moving home or are first-time buyers. Interestingly, as a reflection of the changing times we live in, the average age for the first-time buyer has risen over the years, and currently stands as high as 32.



AVERAGE FINDINGS	REMORT-GAGORS	HOME MOVERS	FIRST-TIME BUYERS
Property Price	£305,896	£325,224	£215,062
Loan-to-Value	56.9%	67.1%	76.1%
Loan Size	£174,055	£218,225	£163,662
As an Income Multiple	2.71	3.28	3.45
% of Monthly Gross Household Income (to service capital & interest repayments)	16.5%	17.4%	16.9%
Age	42	40	32

(Source: UK Finance, March 2019 figures for type of borrower, released May 2019)

Family PROTECTION

You may feel that once you've got your mortgage loan it's job done - but what about protecting the income stream(s) that will pay the mortgage, along with all the other family living costs?

» Many of us recognise the importance of insuring our homes, mobiles and pets. Yet do we apply as much importance to protecting the wage earner(s) who fund the above costs and much more? Whilst many may feel that an untimely death, serious health issue, or a major injury are highly unlikely, or way off into the future - do take a look at the box on the right, as you'll see that it's possibly more likely, and earlier in life than you think.

Surely it's better to **have some protection insurance cover in place and not need it, than to really need it and not have it!**

What's best for you?

There are three main areas to consider, and within these, a massive array of options to suit your age, lifestage, and pocket:

- **Life Cover -** this pays out a lump sum when you die, or a regular income in the case of Family Income Benefit.
- **Critical Illness Cover -** this pays out a lump sum when you have a specified serious illness.
- **Income Protection -** this pays you a percentage of your monthly income when you can't work due to illness or injury.

My Employer will support me

This may, or may not, be true, so do check what's on offer - as there's no point duplicating your cover. If, for example, you are off work long-term, due to illness or injury, and there's only support provided at the basic level, then it's Statutory Sick Pay, which is just £94.25 a week, paid for up to 28 weeks if you qualify. This is less than one-fifth of the average weekly wage of around £500*, which could leave a big shortfall in a person's finances.

Separately, if you are part of the 4.9m workers that are self-employed*, then your exposure is probably even more pronounced! *(Source: *Office for National Statistics, UK Labour Market, May 2019 release)*

Added value benefits

The insurance industry recognises that a payout upon claiming may be the initial driver in setting up a policy. But it's also aware that there is a real benefit - for both the insured and the insurer - if a relationship is maintained throughout the policy term, as reflected by the following examples:

- Incentives to keep healthy - including discounts off health club membership, and wearable technology to aid fitness.
- Specialist support - such as GP/nurse helplines, telephone counselling, carer support services, consumer rights, early intervention and rehabilitation services.

Costs and payout likelihood

With such a wide range of options on offer, do talk to us, as you may be pleasantly surprised at how little a plan may cost. As for paying out claims, take a look at the positive figures at the bottom of this page. **As with all insurance policies, terms, conditions and exclusions will apply.**

Could it happen to **ME?**

Leaving loved ones behind to pick up the pieces.

- **One in eight of all current healthy 35-year-olds will die before the age of 65.** *(Source: Drewberry, Protection Survey 2018)*

As worrying as the above figure may be, it's probably more likely that someone would suffer and survive a serious illness, long-term ill-health, or injury across the same period. If so, that would impact upon on the regular income stream, whilst the wage earner recovers.

- **A sizeable 2 million individuals are currently off work and deemed as long-term sick.** *(Source: Office for National Statistics, UK Labour Market, May 2019 release)*
- **Going back 40 years or so, just 1 in 4 people survived their cancer disease for 10 years or more, nowadays it's doubled to 1 in 2.** *(Source: Cancer Research UK, April 2019)*
- **Since 1961, the UK death rate from heart and circulatory diseases has declined by more than three-quarters.** *(Source: British Heart Foundation, Nov. 2018)*

A massive **97.6%** of all Protection Claims are met

- equating to a sizeable **£14.5m a day** in payouts, and how that plays out for the key sectors are as follows:

LIFE COVER	CRITICAL ILLNESS	INCOME PROTECTION
■ 99.4% of all Life claims ■ Average payout of: £81,269 (term) £4,740 (whole of life)	■ 91.6% of all Critical Illness claims ■ Average payout of £70,926	■ 88.1% of all Income Protection claims ■ Average payout of £22,058

(Source: Association of British Insurers, 2018 data, May 2019 release)

The adaptable Landlord

The **Private Rented Sector** grew from just 2.8m households in 2007, to 4.5m by 2017*, which possibly helped create the climate for the introduction of the tax and regulatory changes.

» The growth to 4.5m was obviously partly fuelled by consumer demand. Both from those who are struggling to raise a deposit to buy their own home, and by others for whom it simply meets their current lifestyle choices.

However, recent developments have impacted on the type of Landlord that wishes to remain in this sector. There's probably been a reduction in the 'amateur' landlords, and a **changed focus** from the 'professional' landlords as they adapt to the new environment.

One example of this, are the growing numbers that are now placing properties within a **Limited Company** structure, which means that they shouldn't be affected by the tax relief changes, and lenders may apply a less stringent rental calculation as a result.

This route won't be right for everyone, particularly those with just one or two properties. Also, interest rates may be higher, and there might be implications for both capital gains tax and stamp duty. This is why it's vital that you obtain tax advice from your accountant.

Current outlook

Whilst nine out of ten landlords say that tenant demand is either stable, growing or booming, the current climate has meant that, conversely, only 7% feel optimistic about their property portfolio. A reflection of this is that almost a quarter of landlords are looking to sell off part of their portfolio. *(Source: Paragon, PRS Trends Report, Q1 2019)*

The tax and regulatory changes will no doubt mean that landlords continue to reassess their investment strategy and identify where they would generate the best return, by area, by property type, and by type of tenant. On the upside, plenty are still renting. In fact, **one-fifth of all households are in the private rented sector,** and, on average they tend to remain in the property for around 4-5 years.*

Where we can assist you

Another positive, is that lenders are keen to lend to this market, with some **decent rates on offer.** So let's have a chat if you'd like to discuss the current deals, or seek advice on a way forward through the plethora of red tape that now exists, particularly for those who are 'portfolio landlords'.

*(Source: *Office for National Statistics, UK private rented sector, Jan 2019 release)*

There is no guarantee that it will be possible to arrange continuous letting of the property, nor that the rental income will be sufficient to meet the costs of the mortgage.
The value of your Buy-to-Let property and income from it can go down as well as up. You may also require advice on the legal and tax issues.
The Financial Conduct Authority does not regulate legal and taxation advice, and most Buy-to-Let mortgages.
HM Revenue & Customs practice and the law relating to taxation are complex and subject to individual circumstances and changes which cannot be foreseen.

Key issues for Landlords

- Stamp duty surcharge of 3% on the purchase of second homes.
- Stepped reduction in mortgage interest tax relief.
- Stricter regulatory rules requiring lenders to stress-test likely future interest rates over a five-year period (unless the loan rate is fixed or capped for five years or more).
- Special underwriting rules for 'portfolio' landlords that have four, or more, mortgaged properties.
- Recent changes to rules for HMO (House in Multiple Occupation) landlords.

■ **We cover mortgages, insurance and protection products along with a number of other financial areas, so do contact us if you'd like to discuss your financial needs: Tel: 01291 671502 Email: enquiries@kama-fs.co.uk Web: www.kama-fs.co.uk**